DOW THEORY LETTERS INC.

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THE MARKET: It appears to me that one thing which could bring the bear out of his lair is the coming international monetary crisis. The French franc is sagging, and the spector of unemployment is rising in France. The British pound, following last November's devaluation, is again weak. As noted in Myers' Finance Review, the 1967 British deficit amounted to $1 billion or an average loss of $96 million a month. This preceded the November devaluation. But in the first quarter of 1968 the British have lost over $200 million a month, double the 1967 rate. How long can the pound hold out? The months of September and October are traditionally the worst months for British trade and they are now coming up. Frankly, it appears to be a race between getting the U.S. elections over with and a new collapse for the pound. It is worth noting that another month's deficit like that of June or July in Britain and half the loan promised under the recent 12-nation agreement will have gone down the drain.

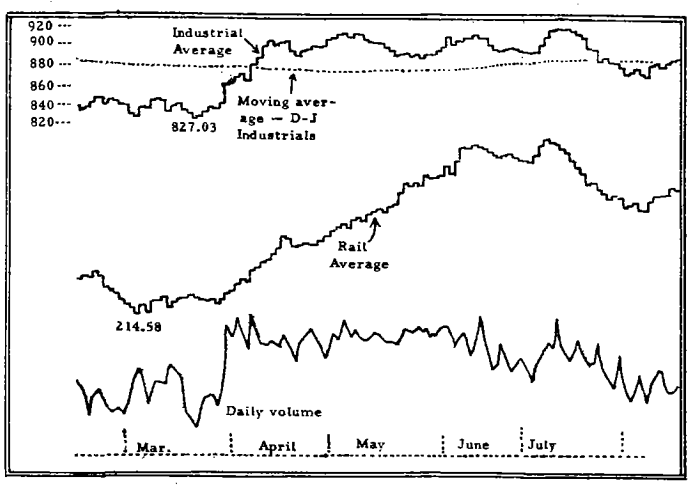
British Trade Deficit Up To $192 Million

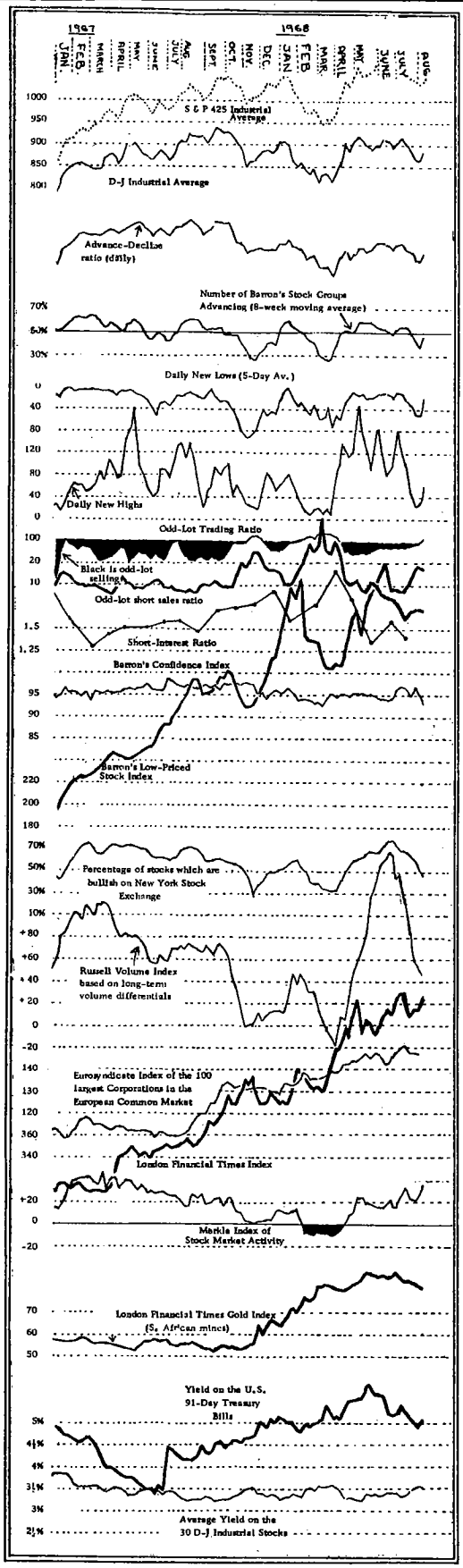
LONDON (UPI) — Britain's foreign trade deficit soared to a staggering $192 million in July, the government announced yesterday.

The figures dealt a setback to Prime Minister Harold Wilson's hopes of boosting his government's sagging political standing.

The British pound slumped on foreign exchange markets. The British stock market tumbled, but later rebounded.

In anticipation, the price of gold has been creeping up, and it is now well above $39 per ounce. The gold stocks have been responding, but most investors have grown tired of the "Wolf" cry. In my mind, however, it is simply a question of how long the lies and deceits which have been put forth by our Government regarding the monetary situation can be kept "under the rug." I would guess that sometime before or just after election the "dirty water" will start spilling all over the monetary scene. But why, after all, should the army of speculators in the stock market take all this seriously? Hasn't it been




1967
1968
S & P 425 Industrial Average
D-J Industrial Average
Advance-Decline ratio (daily)
Number of Barron's Stock Groups Advancing (8-week moving average)
Daily New Lows (5-Day Av.)
Daily New Highs
Odd-Lot Trading Ratio
Black is odd-lot selling
Odd-lot short sales ratio
Short-Interest Ratio
Barron's Confidence Index
Barron's Low-Priced Stock Index
Percentage of stocks which are bullish on New York Stock Exchange
Russell Volume Index based on long-term volume differentials
Euroyndicate Index of the 100 largest Corporations in the European Common Market
London Financial Times Index
Merkle Index of Stock Market Activity
London Financial Times Gold Index (S. African mines)
Yield on the U.S. 91-Day Treasury Bills
Average Yield on the 30 D-J Industrial Stocks

 going on for the last few years? Wolf, wolf, gold gold, just leave us alone while we wait for Glen Alden or American Photocopy to double or triple in price.

Meanwhile, having dropped from 923.72 (July 15) to 879.51 (August 11) in a period of 15 trading days, the market has been trying to mount a rally. A loss of 44 Dow points in 15 days is no mean accomplishment, and the market is indeed entitled to correct itself. But I believe it will take some doing for the D-J Industrial Average to better its 1968 peak of 923.72, and I would guess that a confirmation by Rails (i.e., a bettering of their 1968 high of 269.61) would be an even more difficult feat to accomplish.

Much of what is being written (in fact, most of what is always written) has to do with guesses, educated and otherwise, about the short-term trend. Such speculation, I have always felt, is hopeless, but people are much more concerned with what may happen next week than they are in careful analyses of the direction of the primary trend. For every investor who is concerned with the fact that the Dow has formed a series of three declining tops during 1966, 1967 and 1968, there are a hundred who would rather read an essay on why the market will be higher next month. The big picture is always a hazy theoretical concept in the stockholder's mind, while guesses about where the market will be next week appear close to reality. Nevertheless, anyone who has ever spent time trying to beat the short-term trend knows what I am talking about. In the vast majority of cases, playing the market for the short term is the road to poverty, and I know very few men who have come out on top in such activities over any considerable length of time.

Conversely, I do know many men who have made fortunes investing with the primary trend. This requires great patience, an ability to ignore dozens of minor moves (many of them profitable), and a predisposition to believe in historically-based principles.

The current market is particularly difficult for the short-term scalper because it is made up of an army of performance-oriented, competitive, fund managers and a nation of "get-rich-quick" minded, speculative-bent citizens, all spurred on by the ogre of inflation, and all frenzied by the greatest period of volume in N.Y.S.E. history. Therefore, I would guess that the minor movements in this market are even less significant than they would be in "more normal" years. A hint from Vice-President Humphrey, a miniscule drop in the discount rate by the Fed, a rumor regarding Hanoi, anything is apt to send the Dow up or down 10 points in an hour.

In the face of this kind of action, it seems to me that only the long-term picture can be trusted to make sense. And as I see it, the long-term picture is bearish for equities, this despite a continual barrage of propaganda from Government, business and private sources.

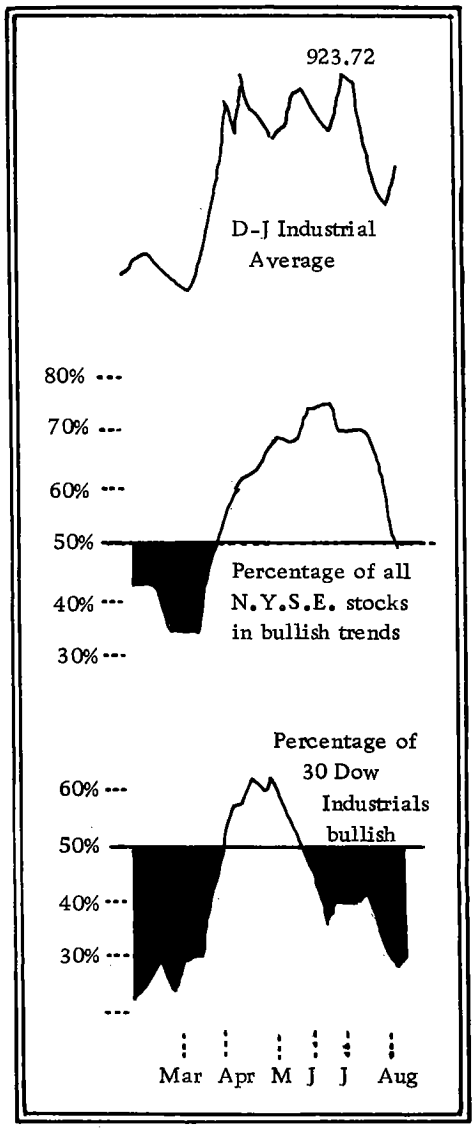
It is particularly interesting to me that we do not hear much these days about "holding for the long pull," and "long-term growth," and "long-pull investments," One reason for this is simply that the Dow has hald in a trading range ever since 1966, and investors are always influenced by what has happened over the recent past. Thus, when the long-term trend is not clear, they concentrate on beating the short-term swings. Historically, just about the time everyone becomes concerned with "in-and-out trading" and scalping the minor movements, a real long-term trend comes into being to shatter their illusions. I believe that a long or drastic movement is coming, and that the movement is going to be down. This is what my Dow Theory studies tell me, and I urge all subscribers to be patient and stay with those studies. We are moving ever closer to the moment of truth on the downside, and there is only one tact to take when this occurs. That is to be prepared, to be liquid, and to hold on for the next great buying area which will come as sure as night follows day.

THE DOW AND THE MARKET: I thought the chart on page 3 would be of particular interest at this time. The statistics are charted from tabulations provided weekly by Chartcraft, Larchmont, N.Y.

Here we see the weekly statistics for the percentage of all stocks on the N.Y.S.E. which are in bullish trends. Below, we see the percentage of the 30 Dow stocks which are bullish. It is clear that the recent weakness appeared first in the Dow stocks, then spread throughout the rest of the market. In other words, the Dow stocks were the first to sense trouble ahead, despite frenzied speculation in the rest of the market. But in the face of continued weakness in the big Dow stocks, the rest of the market gave way. This points up an old adage which I have often repeated. When the Dow Industrial Average embarks on a persistent advance or decline, the rest of the market almost always follows in due time.

Note that the peak of strength occurred in the Dow stocks during April, 1968, at which time 66% of the Dow stocks were in bullish trends. Three months later, in July, the percentage of all stocks bullish hit its peak of 74%. But by this time, the bullish percentage in the Dow had dropped to 40%. By late July the rest of the market began to falter, then sink. By last week the Dow bullish percentage had dropped to 27%, while the bullish percentage of all stocks had tumbled to 50%

The conclusion is this: regardless of the intensity of speculation in the general market, if the big stocks (as represented by the 30 Dow Industrials) start to head down, watch out. A collapse in the quality stocks is always a dangerous sign. It suggests that informed investors are moving to the exits, even though the exit doors are camouflaged by speculative activity.



MANIPULATION: Last week I included a chart which showed that the Dow Industrial Average has held inside its 1966 high-low range during both 1967 and 1968 (so far). This unusual, dragged out action within a primary bear market can largely be ascribed to the Government's continuing and fantastic efforts to manipulate the primary trend. Again and again the Federal Reserve Board has moved to raise or lower the discount rate, to adjust the money supply, to change bank reserve requirements. Last week the Fed attempted anew to "do something" by providing a ¼% decrease in the discount rate, the smallest reduction in that rate in a decade.

The interesting fact about all the Government manipulation is that it has not (nor has it ever) actually reversed the primary trend. As I have said on many occasions, any attempts (by the Government or anybody else) to manipulate or "hold back" the primary trend are of only temporary value. And in the end, rather than reverse the trend, the only real effect is to extend the primary trend.

That is the reason why the bull market which began in 1949 became the longest bull market in recorded history, lasting 17 years until 1966. What happened was that every time the bull became tired, the Government came in with massive doses of inflation, thereby extending the life of the bull. But the cost of all those inflationary infusions was to deplete the U.S. gold supply, destroy our coinage, and run up the most gigantic debt in the history of mankind.

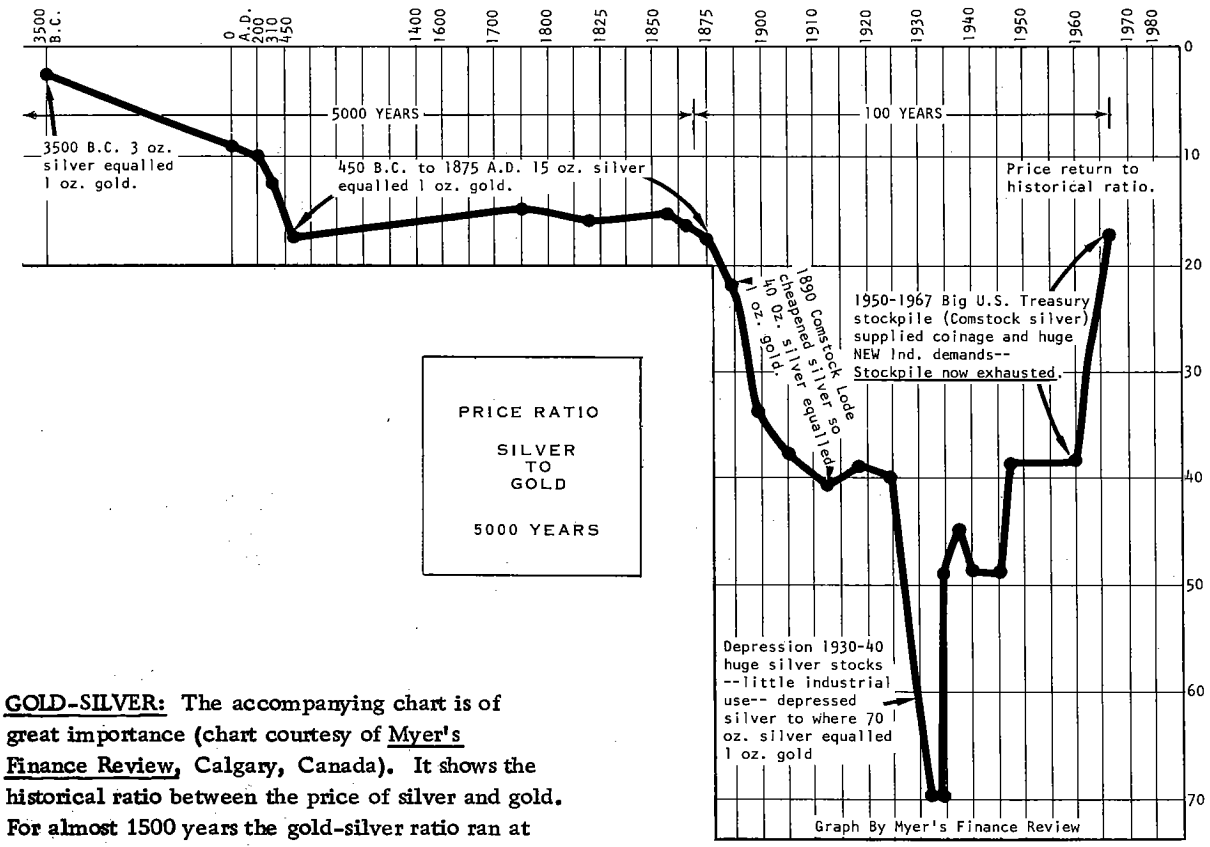
Now, with the bear forces slowly taking hold, the Government is still attempting to stave off the inevitable. With much less ammunition at their command than ever before, the U.S. is again trying to revive the limp body of the 1949-1966 bull. But the corpse is proving less and less responsive.

Nevertheless, the Government's efforts are providing one result: they are extending this bear market further and further along. The conclusion, which might have normally occurred within a few years, is being shoved off into late-1968, 1969 or perhaps even 1970.

The price action during the bear market, so far, underscores this statement. The bear market began in February, 1966, at 995.15 on the Dow. By October the Dow had dropped 25% to 744.32. Then began the great recovery, which by September 25, 1967, had taken the Dow back to a high of 943.08. This represented a recouping of 79% of the 1966 loss. By any reckoning this represented a major retracement, a retracement which lasted 11 months (from the 1966 bottom). Now, 13 months after the 943.08 high of 1967, the Dow is still backing and filling, unable either to push above 943.18 or plunge below the 1966 bear market low of 744.32

As a rule, the longer the primary trend is held back, the more violent the ultimate expression of that trend when it comes. This is the reason why I believe this market is becoming increasingly dangerous and treacherous. I view it as a coiled spring which is being wound ever tighter.

I am not impressed by the current "calming down" of action on Wall Street, the subtle diminution of volume. The longer the time elapse, the greater the strain and the more certain that the latent primary bear forces are building up power. When they are released, it should be something to see.



GOLD-SILVER: The accompanying chart is of great importance (chart courtesy of Myer's Finance Review, Calgary, Canada). It shows the historical ratio between the price of silver and gold. For almost 1500 years the gold-silver ratio ran at approximately 15 to 1; in other words, 15 ounces of silver would purchase one ounce of gold.

When the huge Comstock Lode was discovered in the 1890's, this vast new supply of silver dropped the ratio to 40 to 1. Then with the advent of the Great Depression of the 1930's, the ratio fell to a final low of 70 to 1. During the early '30's silver (in relation to gold) was the cheapest it has been in 5,000 years.

With the rise of industrial America and the huge expansion in the uses for silver, the ratio began receding during the 1930's and '40's. During the 1950's the ratio was up to 38 to 1. Around 1960 it became clear that the massive U.S. reserves of silver were running into trouble. From 2.2 billion ounces of .999 silver in 1958, the U.S. Treasury stock dropped to 1.2 billion ounces in 1963, .6 billion ounces in 1965, .3 billion ounces in 1967. Currently, the Treasury is literally out of .999 fine silver (i.e., pure silver for commercial uses).

I have received many letters asking if I liked silver as well as gold as a hedge position in case of devaluation or as a general hedge against

SUPPORT OF GOLD AT $35 INDICATED

Nations on Continent Ready to Buy to Prevent Market Dip Below Official Level

U.S. TOLD OF ATTITUDE

Plan for Safeguarding Value of Reserves Stalls Hope of a Bigger Dollar Role

By CLYDE H. FARNSWORTH
Special to The New York Times

BRUSSELS, Aug. 8 — The Continental Western European countries, which hold more than half the world's monetary gold, intend to buy gold in the free market rather than let the price drop below the official level of $35 an ounce.

Their position, which has been made known to the United States, lessens the hope of Washington officials that the monetary importance of gold can be downgraded soon.

Conversations with European central bankers indicate they are not prepared to accept a decline in the value of the gold held in their national reserves.

They believe that, even with the present high degree of international cooperation, it is premature to demote the gold held in their reserves to second rank behind the dollar.

At the end of last year the central banks of Continental Western Europe held $21-billion worth of gold (valued at the $35-an-ounce rate). The United States held $12-billion.

monetary chaos. My feelings about silver at this time are mixed. Obviously, there is a classic ratio between gold and silver, obviously this ratio can change. In case of a rise in the price of gold, silver would almost certainly move higher, as the gold-silver ratio would to some extent be maintained.

However, the "fly in the ointment" with silver is the possibility that silver consumption could drop off with a general cave-in of the American Gross National Product. If that happens, and I feel there is a good chance that it will, we could see the gold-silver ratio rise as it did during the 1930's, even though the price of silver could hold steady or rise due to a rise in the price of gold.

It all boils down to this: of the two "plays," gold or silver, I prefer a hedge in gold. I believe the potential gain in holding gold shares is greater than the potential gain in silver shares. Certainly at current prices, there is far more fundamental value say in the South African gold shares than there is in the silver shares.

On the other hand, if economic activity continues at the current rate (and I personally doubt that it will), and if the price of gold remains relatively unchanged, the price of silver (due to simple supply and demand) should move higher. Many experts believe that the current price of silver represents a rare bargain, that what we are now seeing is a normal downward reaction to the fantastic run-up in the price of silver over the past year.

As far as U.S. hopes of "getting rid of gold" as a panacea to world problems, this article from the August 9 New York Times (see page 4) suggests that we eliminate such a possibility from our minds. With European Central Banks holding almost twice as much gold as the U.S., it is obvious that the last thing they are thinking about is removing gold as a monetary reserve. Quite the opposite, the truth is that Europeans have made known that they will protect their huge gold investment by supporting gold if by some chance it should return to the $35 per ounce price.

Secondly, the man with a "long" position wants to see his investment increase in value. The fact that Europeans Banks hold $21 billion in gold gives them a vested interest in an ultimate increase in the price of the yellow metal.

Finally (see page 1 clip), Britain continues to pile up absurd trade deficits despite its recent devaluation of the pound. The French franc, despite denials, could be up for devaluation. A fall of either the pound or the franc presents the ever-present possibility of sudden monetary chaos, and under such conditions gold will continue to be a trusted repository of value. Not until the price of gold is raised to realistic levels do I see any lessening in the world "hoarding instinct" for gold, the only commodity available which can be purchased at early 1930 prices.

NOTES AND QUOTES: From the August 14 Janeway Service: "This is a year of upsets and of long-shots. Agnew was a long-shot and so was Johnson's withdrawal. McCarthy is a long-shot. For he could score by one of two routes—either as the beneficiary of chaos or by negotiating a ceasefire with Johnson in time to avoid it. If he doesn't the chances are that the biggest long-shot of all among Presidential hopefuls—Nixon—will make it."

From the September issue of Alden Well's Monetary Report: "The psychology behind stock market moves in recent years has been based on the idea of perpetual inflation. This, we believe, explains the continuing reversals of opinions such a first a belief that the war was bullish followed by the opinion that it was bearish, or first that the tax increase was bullish and then it was bearish. The firm foundation of belief that inflation and the stock market would continue upward forever could absorb such contradictions. Remove this foundation, and the stock market will act quite differently from the past. It could then no longer ignore the fact that commodity prices have been falling since the first quarter of 1966 and that long-term Treasuries have risen since mid-November, 1967."

From Joe Granville's August Market Letter: "William F. Rickenbacker, in his new book DEATH OF THE DOLLAR (Arlington House, New Rochelle, New York) points out that United States domestic industrial consumption of gold is now FOUR TIMES the U.S. domestic gold production. The author also points out that the gold situation today is a carbon copy of what the situation was in silver only three years ago. The trend is irresistable. Along with what is looked upon as probably the best buying opportunity since April in the golds, the silvers are beginning to shows the same signs of upturn. Watch HECLA and SUNSHINE, both of them this past week starting a new upswing."

In line with Granville's comments and in line with my previous section on gold and silver, I thought subscribers would be interested in this little news clip. It would seem to be a case of "You can't sell what you ain't got."

World markets were upset by the Russian invasion of Czechoslovakia. No one knows the full significance of this event, but those who had been hoping for a new, soft-line Russia must be readjusting their thoughts. Russia, like the U.S., has its hawks and doves. The Russian invasion would seem to indicate that at this time the hawks are still in full command. This is hardly a plus in the U.S. efforts to bring negotiations to a peaceful conclusion in Vietnam. If Russia is to ease up in its plans for an extension in Communist influence, the Czech invasion is hardly a step in that direction.

GSA Rejects Bids On .999 Silver

Dow Jones News Service

WASHINGTON — The General Services Administration for the second consecutive week yesterday rejected all bids for .999 fineness silver at its regular auction. Last week's offering was the first since June.

Silver bullion of .897 to .900 fineness brough $2.1060 to $2.1350 an ounce, up from $1.9600 to $1.9950 at the previous auction.

Trade sources said bids did not meet the price the government expected for the .999 silver.

DOW THEORY MARKET LABORATORY PAGE

The gold stocks are responding to the new move in the price of gold to the mid-$39 range. I have included a daily chart of Dome Mines in order to analyze the technical position of a typical gold share. A number of factors are interesting.

First, Dome seems to be forming a "rounding bottom" effect as drawn by dashed line Z on chart. Such rounding formations often denote careful accumulation, and this is hopeful for Dome, as is the fact that the August low was well above the earlier April low.

Second, last week Dome reversed its descending intermediate trendline, a trendline which is marked X on chart. This too is hopeful. Thus, I would say that the intermediate trend of Dome is bullish, even though Dome will not be bullish in a primary sense until it goes to a new high above the March all-time high.

Finally, there is a possibility that Dome is forming a "head-and-shoulder" bottom, and this would be the most hopeful sign of all. Note that a left shoulder could have formed at A on chart. The stock then rose to the neckline marked Y. A second plunge formed a head at B on chart, and the most recent rally again pulled up to the neckline at Y. If a new minor decline from Y takes Dome to say the 56 range, and the stock rallies from there we would have a potential head-and-shoulder bottom. If the last rally bettered the neckline (Y) which is in the 60 area, Dome would be off and running. All of this could consume a few weeks in time, but I would say that Dome looks more promising now than at any time since last May.

Chart of Dome courtesy of Traders Research, 101 Cherry St., Alton, Ill. 62002.